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SUBJECT: UAE INVESTMENT CLIMATE STATEMENT 2010

REF: 09 STATE 124006

A.1 Openness to Foreign Investment

Investment laws and regulations are evolving in the United Arab

Emirates (UAE) and are expected to become more conducive to foreign investment. At present, the regulatory and legal framework favors local over foreign investors. There is no national treatment for investors in the UAE, and foreign ownership of land and stocks is restricted. The UAE maintains non-tariff barriers to investment in the form of restrictive agency, sponsorship, and distributorship requirements. In order to do business in the UAE outside one of the free zones, a foreign business in most cases must have a UAE national sponsor, agent or distributor. However, the UAE Government (UAEG) is opening up its trade sectors in line with its WTO obligations. The UAEG already has taken steps to cut red tape for foreign investors, and the Ministry of Economy has drafted a new law

to facilitate foreign investment.

There is no personal income tax in the UAE. Foreign banks pay 20 percent tax on their profits. Foreign oil companies with equity in concessions pay taxes and royalties on their proceeds. There are no consumption taxes, and the GCC states formally implemented a single import tariff of 5 percent on most goods January 1, 2003. Companies located in multiple "free zones" across the UAE are exempt from the tariff on imports and re-exports that do not leave the zones. The exceptions to the 5 percent tariff in the UAE are a fifty percent tariff for alcohol, a one hundred percent tariff for tobacco, and duty exemptions for 53 food and agricultural items. Import tariffs are collected and retained by each Emirate. Dubai imposes a rental housing tax on expatriates equaling five percent of the rental charges. The UAE has said that it is considering passing a VAT averaging 7-12 percent on the federal level and has asked for assistance from the IMF. Hotels and some restaurants/coffee shops charge ten to fifteen percent service charges.

Regulation of the establishment and conduct of business in the UAE is shared at the federal and emirate levels. The UAE has drafted a federal law for foreign direct investment (FDI) which is expected to enter into force during 2010, according to UAEG officials. The draft law, which is not publicly available, is expected to

facilitate FDI and improve transparency for investors. The proposed law may allow 100 percent foreign ownership in some sectors and projects, subject to Cabinet approval. Some of the sectors which may be liberalized are those with high added value, including education, health, professional services, computer-related services and technology transfer.

Under the umbrella of the proposed foreign investment law, the UAEG created in 2008 a new department for foreign investment at the Ministry of Economy, which will facilitate foreign investments in the UAE. The new department includes sections for local and international investment promotion, legal affairs, economic studies and customer service. It will coordinate with local entities and economic zones to facilitate business procedures for foreign investors.

Currently, there are four major laws affecting foreign investment in the UAE: the Federal Companies Law, the Commercial Agencies Law, the Federal Industry Law, and the Government Tenders Law. These laws, especially the Federal Companies Law, are seen as the largest obstacles to foreign direct investment in the UAE.

The Federal Companies Law applies to all commercial companies established in the UAE and to branch offices of foreign companies

operating in the UAE. Companies established in the UAE are required to have a minimum of 51 percent UAE national ownership. However, profits may be apportioned differently. Branch offices of foreign companies are required to have a national agent unless the foreign company has established its office pursuant to an agreement with the federal or an emirate government. All general partnership interest must be owned by UAE nationals. Foreign shareholders may hold up to a 49 percent interest in limited liability companies. Foreign investors may purchase 108 of the 135 issues on the UAE stock markets, Abu Dhabi Securities Market (ADX) and Dubai Financial Market (DFM). Under UAE law, foreign investors are allowed to own up to 49 percent of a company. However, company by-laws in many cases prohibit foreign ownership. The international financial crisis and foreign speculation contributed to significant declines

in the values of local shares in 2008 and 2009. As a result, some UAE public shareholding companies have decided to reduce the percentage of shares available for foreign ownership.

In August 2009, the UAE President issued a decree to amend Article 227 of the Federal Company Law Number 8 of 1984 and abolish the AED 150,000 (USD 40,838) minimum capital requirement for establishing a limited liability company. The removal of the compulsory capital requirement is designed to encourage small and medium sized enterprise development.

The Commercial Agencies Law requires that foreign principals distribute their products in the UAE only through exclusive commercial agents that are either UAE nationals or companies wholly owned by UAE nationals. The foreign principal can appoint one agent for the entire UAE or for a particular emirate or group of emirates.

In 2006, the UAE announced substantial changes to the Commercial Agencies Law. These amendments include: 1) requiring mutual consent to renew an agency agreement, 2) limiting an agency contract to a fixed time period, 3) allowing either party to file for damages, 4) eliminating the Ministry of Economy's Commercial

Agencies Commission (which handles agency disputes), and 5)allowing the import of "liberalized goods" without the agent's approval. In an effort to curb price manipulation and allow unrestricted imports of basic food products, the UAE eliminated trading agency requirements for basic food products in August 2006. The food products covered by the decision include milk, frozen vegetables, baby formula, chicken, cooking oil, noodles, rice, flour, fish products, tea, coffee, cheese, pastries and diapers. For some food products deemed non-essential, agency agreements in existence prior to this period are still recognized.

The UAE Ministry of Economy has publicly discussed amending the Companies Law to provide for greater foreign ownership of companies in certain sectors. Some of the sectors which may be liberalized are education, health, professional services and computer-related services.

The Federal Industry Law stipulates that industrial projects must have 51 percent UAE national ownership. The law also requires that projects either be managed by a UAE national or have a board of directors with a majority of UAE nationals. Exemptions from the law are provided for projects related to extraction and refining of oil, natural gas, and other raw materials. Additionally, projects with a small capital investment or projects governed by special laws or agreements are exempt from the industry law. In September 2009, the Minister of Economy announced that the UAE is considering raising the foreign ownership ceiling from the current 49 percent limit and drafting an industry law that allows 100 percent foreign ownership in the industrial sector.

The Government Tenders Law stipulates that a supplier, contractor, or tenderer for federal projects must either be a UAE national or a company in which UAE nationals own at least 51 percent of the share capital or foreign entities represented by a UAE distributor or agent. Foreign companies wishing to bid for a federal project must, therefore, enter into a joint venture or agency arrangement with a UAE national or company. Federal tenders must accompany a bid bond in the form of an unconditional bank bond guarantee for 5 percent of the value of the bid. If goods and services are not available locally then UAE federal government entities often tender internationally.

The UAE restricts foreign ownership of land, with rules varying from emirate to emirate. Individual emirate policies allow non-GCC nationals to freehold or leasehold rights in designated areas but does not give property owners permanent residence visas or an automatic right to work in the Emirate. However, because specific laws regarding "freehold" ownership remain to be codified and procedures for title documentation and conveyance remain to be established, potential buyers are unsure whether they will have an absolute "freehold" title that means the same as it does in Europe or the U.S.

In February 2009, the Higher Corporation for Specialized Economic Zones (ZonesCorp), an industrial zone based in Abu Dhabi, signed Memorandums of Understanding with the Ministry of Economy (MoE) and the Abu Dhabi Chamber of Commerce and Industry (ADCCI) to develop an ideal industrial environment in Abu Dhabi and facilities, transactions and services for local, regional and international investors. Through the electronic exchange of data and information, the MoU gives ZonesCorp the authority to issue, amend and renew Chamber of Commerce Certificates for industrial businesses operating in the industrial cities, as well as collect fees on the Chamber's behalf, streamlining the process and saving time for investors. ZonesCorp has also established a one-stop-shop for investors.

In November 2004, the UAE announced its intent to open up the insurance sector to new foreign insurance companies. In April 2006, the UAE Cabinet amended the law regarding ownership of insurance companies. The amended article states that 75 percent of insurance companies must be owned by a UAE national or 100 percent

by UAE national legal persons, i.e., a UAE corporation. No new insurance companies or new branches have been authorized since ¶2008. Any new companies entering the market are required to meet high level international rating criteria and must complete a viability study to prove that it will be offering new products to the market. About half of the insurance companies in the UAE are foreign. New entries of foreign insurance companies were frozen since 1999, but officials from the Insurance Section of the UAE Ministry of Economy have stated that the Ministry of Economy licensed three subsidiary foreign insurance companies in 2007. Currently, there is only one American subsidiary insurance company operating in the UAE.

In 2008, Abu Dhabi Chamber of Commerce and Industry created also a one-stop-shop for investors , with the exception of Israeli currency and the currencies of those countries subject to United Nations sanctions.

A.2 Conversion and Transfer Policies

The UAE's exchange system is generally free of restrictions on payments and transfers from international transactions. The UAEG passed comprehensive anti-money laundering legislation following the attacks of September 11, 2001, that imposes strict documentary requirements on large wire transfers. Travelers entering the UAE must declare currency amounts of more than 40,000 Dirhams (approximately USD 10,800) as part of these measures.

Since February 2002, the Dirham has been officially fixed to the

U.S. Dollar. The exchange rate is 3.67 UAE Dirhams per one U.S. Dollar. Every bank transaction in U.S. dollars is subject to a 1 percent fee. In 2009, UAE has withdrawn from the anticipated GCC monetary union, which was expected in 2010.

A.3 Expropriation and Compensation

Foreign investors have not been involved in any expropriations in the UAE in recent years. There are no set rules governing compensation if expropriations were to occur, and individual emirates probably would treat this differently. In practice, authorities in the UAE would not expropriate unless there was a compelling developmental or public interest need to do so, and in such cases compensation would likely be generous.

A.4 Dispute Settlement

The Embassy is aware of a few substantial investment disputes during the past few years involving U.S. or other foreign investors and government and/or local businesses. There have also been several contractor/payment disputes, with the government as well as local businesses. Disputes generally are resolved by arbitration, by the parties themselves, or by recourse to the legal system. Dispute resolution can be difficult and uncertain, however.

Arbitration may commence by petition to the UAE federal courts on the basis of mutual consent (a written arbitration agreement), independently (by nomination of arbitrators), or through a referral to an appointing authority without recourse to judicial proceedings. Enforcing arbitration judgments rendered in the UAE can be difficult as they require court certification, and judicial proceedings may continue for several years. Some companies are reportedly unwilling to resort to arbitration out of concern that it would affect their future business opportunities in the UAE.

The UAEG's accession to the UN Convention on the Recognition and Enforcement of Foreign Arbitral Awards became effective in November ¶2006. An arbitration award issued in the UAE will now be enforceable in all 138 states that have acceded to the Convention, and any award issued in another member state will be directly enforceable in the UAE. The Convention supersedes all incompatible legislation and rulings in the UAE, and should be welcomed by many businesses that consider arbitration the most advantageous form of dispute resolution. The Embassy does not yet have any experience with U.S. firms attempting to use arbitration under the UN convention.

The UAE constitution established a federal court system while acknowledging the right of the individual emirates to opt out, which Abu Dhabi, Dubai and Ras Al Khaimah have. However, some issues must be heard in the federal court system such as security matters, conflicts between the emirates, constitutionality of a federal law, trial of ministers and senior officials and jurisdictional issues.

There is no independent judiciary in the UAE. The Ministry of Justice appoints judges to the federal courts, while judges in Abu Dhabi, Dubai and Ras Al Khaimah are appointed by the respective rulers of those emirates. The majority of judges are non-Emirati. Each emirate applies federal law in its own court system that consists of courts of first instance, courts of appeal and a Supreme Court. The court of first instance consists of civil, criminal, and Sharia (Islamic law) courts. Sharia law is

applicable to both Muslims and non-Muslims, but is focused primarily on family, inheritance and personal status matters. Courts will interpret statutory law and Sharia law in deciding cases. Commercial disputes involving foreign parties tend to come before the civil courts in the federal system; a panel of three judges ordinarily hears commercial disputes. All cases involving banks and financial institutions are required to be heard by civil courts. In Abu Dhabi, all non-arbitration commercial disputes are first brought to the Abu Dhabi Conciliation Department. If the parties are unable to reach a settlement, they can begin legal proceedings in the court of first instance.

The Code of Civil Procedure contains comprehensive rules regarding the various types of preventive and provisional remedies prior to litigation and the issuance of judgments, including the attachment of property, confiscation of the defendant's passport and prohibitions on travel, as well as the detention of the defendant in certain instances. However, the courts must certify all arbitration decisions, and though they do not review substantive claims, they can invalidate decisions based on procedural considerations. Parties can also appeal certification decisions thus prolonging enforcement indefinitely. In June 2009, the Abu Dhabi Judicial Department (ADJD) had established commercial directories, including directories for bonds and shares, banks, construction and real estate disputes, insurance, and financial papers.

In 1993 the Abu Dhabi Chamber of Commerce and Industry formed the

Abu Dhabi Commercial Conciliation and Arbitration Center in an effort to accelerate commercial dispute resolution. The Center has jurisdiction to conciliate or arbitrate commercial disputes. The Center's executive regulations govern the conciliation and arbitration procedure. Though referral by the parties to the Dispute Center ostensibly requires them to accept the finality of the Center's decision, the courts must still certify the decision and enforcement can be delayed. The Center conducts proceedings in Arabic or any other agreed upon language.

The Dubai Chamber of Commerce and Industry has promulgated similar commercial conciliation and arbitration rules that permit parties to have conciliation or arbitration proceedings under the auspices of the Chamber. In 2004, the Dubai International Arbitration Center was made independent of the Chamber. The Arbitration Center aims to bring international standards of arbitration to business in Dubai. The UAE is a member of the International Center for the Settlement of Investment Disputes. In May 2009, Sharjah issued an Emiri Decree (No. 6 of 2009) concerning the formation of the Sharjah International Commercial Arbitration Center, under the umbrella of the Sharjah Chamber of Commerce.

A.5 Performance Requirements/Incentives

As listed elsewhere in this report, the regulatory and legal framework in the UAE favors local over foreign investors. Government tendering is not conducted according to generally accepted international standards, and re-tendering is the norm. To bid on federal projects, a supplier or contractor must be either a UAE national or a company in which UAE nationals own at least 51 percent of the capital or have a local agent or distributor. Federal tenders must be accompanied by a bid bond in the form of an unconditional bank guarantee for 5 percent of the value of the bid. UAE federal government entities can tender internationally since foreign companies sometimes are the only suppliers of specialized goods or services that are not widely available.

Incentives are given to foreign investors in the free zones (details in section A15). Outside the free zones, no incentives are given, although the ability to purchase property as freehold in certain favored projects in Dubai would appear to be incentives aimed at attracting foreign investment.

A.6 Right to Private Ownership and Establishment

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Except as detailed elsewhere in this report, there are no restrictions on the right of private entities to establish and own business enterprises and engage in all forms of remunerative activity.

A.7 Protection of Property Rights

In September 2005, the Emirate of Abu Dhabi passed a law allowing Emiratis to hold title on properties in the Emirate and opened up some foreign leasehold rights to surface property in certain designated areas. Most construction, commercial and residential, is financed by a specialized agency of the government of Abu Dhabi, and commercial banks finance the remainder. Their collateral traditionally has been access to the rent stream of the building or the personal guarantee of the developer. A domestic mortgage

industry is also developing.

The UAE Government (UAEG) continues to lead the region in protecting intellectual property rights (IPR). Anecdotal and statistical evidence confirms that the UAEG is enforcing copyright, trademark, and patent laws passed in 2002 to protect U.S. intellectual property, and continues to demonstrate its commitment to the 2002 agreement providing TRIPS-plus levels of protection to U.S. pharmaceuticals. In 2008, the UAE Ministry of Economy (MoE) established offices for copyright, trademark, and patent, each under different section at the MoE.. Although the UAE is the leader in the region at enforcing intellectual property rights and the Emirate of Dubai is very pro-active in enforcement, many stakeholders believe that the UAEG could do more to fight piracy in the other emirates and to deal with the problems of transshipping of counterfeit goods.

The copyright law, enacted in July 2002, grants protections to authors of creative works and expands the categories of protected works to include computer programs, software, databases, and other digital works. Efforts to combat computer software piracy in the UAE have been successful. According to industry estimates, the rate of software piracy in the UAE is the lowest in the Middle East and North Africa, estimated to be 36 percent in 2009. The UAE is recognized as the regional leader in fighting computer software piracy. In 2009, the UAE launched several campaigns against piracy and seized and destroyed thousands of pirated CDs, auto spare parts, perfumes, air fresheners, electrical devices, sport equipment, medicines, movies and music discs. In 2009, industry estimated that piracy resulted in almost $170 million (AED 623 million) in losses to the UAE economy in 2008. According to UAE officials, counterfeit and fake goods cost UAE economy around USD 408 million (1.5 billion Dirhams) annually.

The UAE's Trademark Law, also issued in July 2002, confirms that the UAE will follow the International Classification System and that one trademark can be registered in a number of classes. The law provides that the owner of the registration shall enjoy exclusive rights to the use of the trademark as registered and can prevent others from using an identical or similar mark on similar, identical or related products and services if it causes confusion among consumers. As part of the GCC Customs Union, the UAE and the other five Member States are working toward unifying their IP regimes. In this respect, the GCC is preparing a draft common trademark law. All six Member States are expected to adopt this law

as national legislation in order to implement it.

A.8 Transparency of the Regulatory System

The fundamental instrument by which all of the emirates regulate business activity is the requirement that any place of business must acquire and maintain a proper license. The procedures for obtaining a license, which are publicly available, vary from emirate to emirate.

A license is not required unless a place of business is set up in the UAE. In other words, foreign businesses exporting to the UAE but without a regular or continuing business presence in the UAE do not need a license. Licenses available include trade licenses, industrial licenses, service licenses, professional licenses, and

construction licenses.

Several federal regulations govern business activities in the UAE outside free trade zones. Activities within the free zones are governed by special bylaws.

A.9 Efficient Capital Markets and Portfolio Investment

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The UAE federal commercial code, promulgated in 1993, devotes an entire chapter to bankruptcy: the first comprehensive legislation in the UAE on the subject. Monetary judgments in bankruptcy cases are made in the local currency, and UAE courts enforce the judgments of foreign courts if there is reciprocity based on bilateral or international treaties. In the judgment of western legal experts, the commercial code chapter on bankruptcy governs the procedures and effects of bankruptcy in the UAE, but does not provide a mechanism for the orderly evaluation and distribution of assets of a bankrupt entity. The government is considering revising bankruptcy legislation in the wake of the global financial crisis.

Following a banking crisis caused by accumulating bad debts after the oil boom in the mid-1980s, the Central Bank stopped giving licenses to new foreign banks. However, in September 2003, the UAE Central Bank announced that it would allow the operation of more banks from other countries on a reciprocal basis. The Central Bank has since granted licenses to some GCC banks. In 2008, the Central Bank allowed several foreign banks operating in the UAE to set up new branches. According to Central Bank statistics, there were no new foreign bank branches licensed in 2009, but 6 new foreign electronic banking services units were authorized. In 2009, local banks opened 43 new branches, 6 new electronic banking services units, and 9 new pay offices.

Citibank is the only U.S. bank in the UAE that offers full banking services. There are a number of U.S. financial institutions with either representative offices in the UAE or that have established a presence in the Dubai International Financial Center (a financial free zone). The largest banks in terms of assets include the Emirates NBD (the merged Emirates Bank International and National Bank of Dubai), National Bank of Abu Dhabi, Mashreq Bank, and Abu Dhabi Commercial Bank. In November 2008, the UAE Ministry of Finance announced that it started the official procedures to merge Amlak Finance PJSC and Tamweel PJSC, two leading Sharia (Islamic Law)-compliant real estate finance providers in the UAE, under the UAE Real Estate Bank to create the largest real estate finance institution in the country under the umbrella of the Federal Government. The structure of the merger is still not finalized,

although it was expected to be announced by late 2009.

The Central Bank prohibits lending an amount greater than 7 percent of a bank's capital base to any single customer. Foreign banks with branches in the UAE are not permitted to calculate loans as a percentage of their global capital, which may however be used to calculate the capital adequacy ratio. In a revision to the rule, the Central Bank in 1993 said it would exclude from the requirement non-funded exposures, such as letters of credit and guarantees. The Central Bank also announced implementation of internationally recognized and accepted accounting principles. In the past year, UAE banks adopted more conservative lending policies and raised interest rates on time deposits, closing the gap between loans and deposits to an estimated USD 6.64 billion (24.4 billion Dirhams) in November 2009.

The UAEG implemented a body of anti-money laundering legislation at the end of 2001. In 2004, the UAE strengthened its legal authority to combat terrorism and terrorist financing by passing Federal Law Number 1 of 2004 on Combating Terror Crimes on July 29, 2004. In 2006, the UAE also enacted Law No. 2 of 2006 -- the Cybercrimes Law -- which has articles dealing with money laundering and terrorist finance. The UAE Central Bank's Anti-Money Laundering and Suspicious Cases Unit (AMLSCU) performs the functions of a financial intelligence unit (FIU) and is a member of the Egmont Group.

A.10 Competition from State Owned Enterprises

Many fully or partially state-owned companies have grown large and efficient enough to compete effectively for business and financing in local and regional markets.

A.11 Corporate Social Responsibility

Many companies in the UAE, including local and foreign companies, participate in corporate social responsibility programs, including employing social programs, humanitarian assistance, and environmental issues.

A.12 Political Violence

There have been no instances in recent memory involving politically motivated damage to projects, or insurgencies that have impacted the investment environment.

A.13 Corruption

Transparency International's 2009 report ranks the UAE 35th globally and second among Arab countries, after Qatar, in transparency and combating corruption. There is no evidence that corruption of public officials is a systemic problem; however, in 2008 and 2009, UAE authorities investigated several high-profile

corruption cases, including two cases involving two former ministers. Several senior Emirati and foreign nationals were dismissed and detained. Dubai Police referred 36 alleged bribery cases for prosecution in 2009. The law stipulates that a public servant convicted of embezzlement shall be subject to imprisonment for a minimum of five years if the crime is connected to counterfeiting. Article 237 imposes a minimum term of one year for accepting a bribe, while anyone convicted of attempting to bribe a public servant may be imprisoned for up to five years

American firms are bound by the Foreign Corrupt Practices Act. In August 2005, the UAE signed the UN Anticorruption Convention and ratified it in February 2006.

A.14 Bilateral Investment Agreements

The UAE has signed a variety of bilateral and multilateral trade and investment agreements, including six free trade agreements, 45 related to bilateral trade and economic cooperation, 33 to promote investment, and 49 prohibiting double taxation on income. The UAE is involved in Gulf Cooperation Council (GCC) negotiations with Australia, China, and other countries on free trade agreements. In June 2009, the GCC concluded a Free Trade Agreement with Iceland, Liechtenstein, Norway and Switzerland (the European Free Trade Association).

In March 2004, the United States signed a Trade and Investment Framework Agreement (TIFA) with the United Arab Emirates to provide a formal framework for dialogue on economic reform and trade liberalization. TIFAs promote the establishment of legal protection for investors, improvements in intellectual property right protection, more transparent and efficient customs procedures, and greater transparency in government and commercial regulations.

The United States began negotiating a Free Trade Agreement with the UAE in March 2005. In early 2007, the United States and the UAE announced that despite considerable progress in a number of areas under negotiation, they would not be able to complete FTA negotiations under the existing time frame for trade promotion authority. The United States and the UAE have since initiated a "TIFA Plus" consultative process under the existing bilateral Trade and Investment Framework Agreement (TIFA); this process will be used to advance trade liberalization in as many areas as possible - building where appropriate on progress made during the FTA negotiations.

A.15 OPIC and other Investment Insurance Programs

The UAE has been suspended from U.S. OPIC insurance programs since 1995 because of the UAEG's lack of compliance with internationally recognized worker rights standards, particularly laborers' rights to association and collective bargaining. The ILO reported in April 2003, however, that the UAE had started to address these concerns.

A.16 Labor

The population of the UAE was approximately 4.765 million in 2008, according to the Ministry of Economy. More than 80 percent of residents are foreigners, and approximately 98 percent of private sector workers in the UAE are non-UAE nationals. Emiratization of the workforce remains a national objective, although mandated hiring of nationals has been limited to only a few sectors, such as banking, which has a 4% quota, insurance, which has a 5% quota and trade, which has a 2% quota for companies employing 50 workers or

more as well as quotas in the federal government. In addition, in 2006, the UAEG added requirements that all secretaries and Public Relations Officers must also be Emirati. The UAE National Human

Resource Development and Employment Authority (TANMIA), is the federal body tasked to boost Emiratization. In May 2009, the Cabinet approved the establishment of the UAE Emiratization Council (UEC), which is responsible for formulating policies and standards to promote Emiratization and for supporting the development of skills and competitiveness among nationals.

Despite these efforts, the percentage of UAE nationals to total employees in the private sector decreased from 1.79 percent in the end of 2007 to 1.63 percent in the first half of 2008. According to a 2009 Ministry of Labor study, non-Arab Asians constitute 88 percent of the total workforce in the private sector, while Arab nationals including Emiratis add up to a mere 10 percent, and other nationalities comprise just 2 percent.

The UAE Government has committed itself to strictly regulating and enforcing labor laws, as witnessed by a series of regulatory and legislative initiatives. In February 2007, the Ministry of Labor published the proposed new labor law for public comment. The proposed law, which still not finalized, does not contain any provisions for labor unions or for collective bargaining, but the UAE Ministry of Labor continues to press businesses and work with countries from which the labor pool originates to improve and streamline contracts, ensure timely salary payment and maintain adequate living accommodations. A committee constituted from several UAE governmental bodies and experts has reportedly been established to discuss standards and a mechanism for labor representation.

In 2009, the Ministry of Labor introduced a new electronic wage protection system (WPS) designed to combat non-payment of wages. This direct deposit system creates an electronic record of payment for the employer and employee. Implementation is being phased in according to company size.

Businesses in free trade zones must comply with federal labor laws; however, the Ministry of Labor does not regulate them. Instead, each free trade zone maintains its own labor department to address workers' concerns.

Acceptable Conditions of Work

There are a considerable number of skilled foreign nationals in the country who are employed under favorable working conditions. However, the country is also a destination for a large number of unskilled workers, including approximately 268,000 domestic servants, most of them women from South and East Asia, and an even larger number of unskilled male workers, mostly from South Asia. These unskilled laborers actively compete for jobs in the UAE, and many are subject to poor working conditions. UAE employers tie most foreign employee's residency permit or visa to his employment and sponsorship. If the employee terminates his employment and is unable to secure new employment and a new sponsor, the employee loses residency and could be required to leave the country.

Visas, residence permits, and work permits are required of all foreigners in the UAE except nationals from Gulf Cooperation Council (GCC) countries. Americans are eligible to receive 10-year,

multiple entry visas, which authorize stays of up to six months per entry, with the possibility of a six-month extension. U.S. citizens may obtain visit visas for business and tourism at the airport upon arrival. These visas do not permit employment in the UAE. In October 2009, UAE issued a requirement that most diplomatic or official passport holders obtain visas prior to their travel to the UAE.

A.17 Foreign Trade Zones/Free Ports

Free Zones in the UAE are home to more than 17,000 companies with a total investment estimated at more than USD 21 billion. Presently, 38 free trade zones operate in the UAE, with more in the development stage. Overall, these free zones form a vital component of the local economy, and serve as major re-export centers to the Gulf region.

Since UAE tariffs are low and not levied against many imports, the chief attraction of the free zones is the waiver of the requirement for majority local ownership. In the free zones, foreigners may own up to 100 percent of the equity in an enterprise. All free zones provide 100 percent import and export tax exemption, 100 percent exemption from commercial levies, 100 percent repatriation of capital and profits, multi-year leases, easy access to sea and airports, buildings for lease, energy connections (often at subsidized prices), and assistance in labor recruitment. In addition, the free zone authorities provide significant support services, such as sponsorship, worker housing, dining facilities, recruitment, and security.

By far the largest and most successful of the free zones is the Jebel Ali Free Zone (JAFZA) in Dubai, located 20km south of Dubai city adjacent to the Jebel Ali Port. Over 6000 companies representing 80 countries have set up shop in the JAFZA, including numerous Fortune 500 firms.

The JAFZA managing authority authorizes three types of licenses: a general license, a specific license, and a national industrial license. The licenses are valid while a company holds a current lease from the free zone authority and are renewable annually as long as the lease is in force. The special license is issued to companies incorporated, or otherwise legally established, within the free zone or outside the UAE. In such cases, no other license is required, and the ownership of the company may be 100 percent foreign. The license is issued for any activity permitted by the free zone authority, including manufacturing. A company with a special license can only operate in the JAFZA or outside the UAE, but business can be undertaken and sales made in the UAE through or to a company holding a valid Dubai Economic Department license. However, a company with a special license can purchase goods or services from within the UAE.

A variety of innovative free zones in Dubai have been established since 2000, most notably the TECOM (Technology, Electronic Commerce and Media) free zone. TECOM houses both Internet City and Media City, two subdivisions which cater, respectively, to the IT and media sectors. TECOM offers a high bandwidth and state-of-the-art IT infrastructure. Other Dubai free zones include Dubai Health Care City, specializing in medical products and services, the Mohammed Bin Rashid Technology Park, which aims to promote scientific research and development, and to transfer technology throughout the region and the Dubai Aid City, which hosts local, regional and international relief aid donors, suppliers and organizations. Internet usage in the free zones is not censored as

it is in the non-free trade zones.

A.18 Foreign Direct Investment Statistics

The United Nations Conferences on Trade and Development (UNCTAD) reports that inward FDI flow for the UAE rose to USD 13.7 billion in 2008. The UNCTAD Inward FDI Performance Index 2004-2007 (141 economies) listed the UAE in 34th place worldwide and 5th place among Arab countries in attracting foreign direct investment.

The stock of U.S. foreign direct investment (FDI) in United Arab Emirates (on historical-cost basis) was USD 3.423 billion in 2008, according to the U.S. Bureau of Economic Analysis. U.S. FDI in United Arab Emirates is concentrated largely in the mining, finance, and wholesale trade sectors.

The Abu Dhabi Chamber of Commerce and Industry notes that the leading sectors for investment in the UAE are (in order of magnitude of investment): oil and gas field machinery and services, power and water, computer/peripherals, medical equipment and supplies, airport development and ground equipment, telecommunications, and franchising.

There are no restrictions or incentives with regard to the export of capital and outward direct investment, and UAE investment abroad is significant. It is conservatively estimated that the Abu Dhabi Investment Authority (ADIA) manages an approximate USD 500 billion (estimates range upward) in government assets in overseas markets -- mostly in the United States, Europe, and Asia. Other Emirate level investment authorities primarily from Abu Dhabi and Dubai are also actively investing overseas.
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